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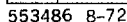
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SOUTH VIETNAM: Communist forces have begun a series of attacks in several areas in the central coastal lowlands.

Following heavy shellings that included the first use of 130-mm. field guns in these provinces, enemy forces probably from the North Vietnamese 711th Division attacked government positions around the district town of Que Son on 18 August. Fighting there is continuing.

Other attacks have occurred in coastal areas to the south. Tam Ky, the capital of Quang Tin Province, was lightly shelled with 122-mm. rockets. Other government positions both north and south of the city were also shelled. Ground attacks against several outposts north and west of Tam Ky have also been reported, and one road has been interdicted. A number of clashes took place in neighboring Quang Ngai Province and one outpost north of the provincial capital has been overrun.

There have been a number of reports that Communist military activity in the coastal provinces would increase in the last half of August. Some of these reports claimed that the Communists intend to employ armor and heavy artillery in this area. The appearance of 130-mm. field guns supports this claim, although tanks have not yet been reported.

On the northern front, street fighting between marine units and enemy defenders continues near the citadel in Quang Tri City. Enemy shellings in the area were at a reduced level, but several ground clashes occurred on the northern and southern edges of the city. South Vietnamese Airborne troops have been involved in two days of heavy fighting about five miles south of Quang Tri City, and fighting also continues west of Hue as the enemy probes government positions guarding the Route 547 corridor into Hue. Military activity elsewhere was light.

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INDIA-PAKISTAN: A second summit meeting, tentatively scheduled for late September, may be delayed.

President Bhutto had agreed at Simla in July to recognize Bangladesh before the two leaders meet again. Because he has not carried through on the alleged promise, New Delhi may be having second thoughts about holding another round at this time. Apart from Bhutto's domestic political reasons for not extending recognition, Mrs. Gandhi may believe that China's threat to veto Bangladesh's membership in the UN has allowed Bhutto to toughen his stand. Bhutto has announced that recognition is impossible at this time.

Mrs. Gandhi may also be concerned that prospects are dim for progress on Kashmir. At Simla both sides agreed to take this and other issues up later on a bilateral basis. Pakistan now maintains, however, that the bilateral process does not rule out UN involvement in Kashmir, and continues to reject the possibility of the partition of the disputed state roughly along the 1971 cease-fire line.

According to the Pakistanis, New Delhi is demanding its way on Kashmir as the price for returning the prisoners of war. The Indians claim that repatriation of the prisoners will require Dacca's concurrence, which is unlikely without formal recognition. The Pakistanis believe that the Indians could change the Bengali stand if they wanted to.

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JAPAN-CHINA: The two countries have agreed to conduct trade in their own currencies, thereby paving the way for further gains in bilateral trade.

The agreement was signed in Peking by representatives of the privately owned Bank of Tokyo, which specializes in foreign exchange transactions. It provides that any buildup of yen or yuan balances will be convertible to so far unspecified third-country currencies.

Trade in the past generally has been conducted in sterling, but the floating of the pound in late June disrupted negotiation of several major contracts, including the sale by Japan of some \$20-million worth of fertilizer. Peking took the initiative in recent talks, hoping to gain prestige from use of its currency in international trade. Japan, which has been hurt most by periodic sterling devaluations because of the sizable trade surplus it carries with China, has long favored a new arrangement.

The exchange agreement will promote Sino-Japanese trade, which reached an all-time high of \$525 million in the first half of 1972. This represents a 17-percent gain over the same period last year, after adjusting for revaluation of the yen. Japanese officials currently are drafting a treaty of commerce and navigation that will be negotiated with Peking after diplomatic relations are normalized. Moreover, the International Trade and Industry Ministry plans to send a high-level business and government team to China to discuss means for further expansion of trade.

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MALAGASY REPUBLIC: The deteriorating security situation in Tananarive has increased the possibility of clashes between General Ramanantsoa's military government and the protest movements that brought it to power.

There has been a general breakdown in law and order in the capital city since last May when student and labor groups forced President Tsiranana from power. The breakdown has been manifest mainly in anti-foreign acts. Businesses belonging to French and Indian merchants have been looted, and the Indian community believes that more is to come. Roaming bands of toughs have threatened other foreign businesses with similar attacks unless tribute is paid. Several businesses patronized mainly by foreigners have also received anonymous threats. Government efforts to control the situation by increasing police patrols and establishing roadblocks apparently have not been effective.

Meanwhile, the student and labor groups are continuing preparations for a national congress to be held in Tananarive from 4 to 19 September to decide on specific demands for political and social reforms. The influx of hundreds of delegates will further complicate security problems. Most protesters probably hope for an orderly meeting, but some elements, especially among the workers, favor renewed demonstrations as a show of strength. Workers have already staged sporadic strikes over the past few months, in defiance of an agreement with the government.

General Ramanantsoa is not firmly in control of events. There exists at best a fragile and temporary truce between him and the protest movements. He has allowed the protesters to seize the initiative on reform and has twice backed down when faced with the threat of renewed demonstrations. It now appears that unless Ramanantsoa takes a firm hand soon, he could well be faced with mass demonstrations during the national congress, and he may find these difficult to control.

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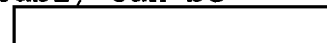
NOTES

USSR: For the first time the Soviets have deployed guided missile patrol boats with the Mediterranean Squadron. Two OSA guided missile patrol boats joined a destroyer escort and two landing ships of the squadron off Latakia, Syria, this week. The OSAs entered the Mediterranean on 9 August under tow of Soviet naval auxiliaries--one a missile support ship. The five Soviet units may join Syrian naval units for an amphibious exercise, possibly including firing of the 25-nm. range SS-N-11 missile from the OSAs.



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INTERNATIONAL OIL: Saudi Arabian oil Minister Yamani, acting for the Persian Gulf Arab states, will meet today with representatives of the oil companies to discuss the troublesome compensation aspects of participation in the oil companies' operations within these countries. The meeting may result in the first real move toward settlement, because the companies probably will back down somewhat from earlier demands for compensation based on a figure substantially above the net book value. Yamani, for his part, may be more specific about the offer he made at the last negotiating session in June that provides for a "sweetener" to be added to book value. Company representatives now are optimistic that once the compensation obstacle is settled, other issues, including arrangements for marketing the countries' share of oil production, can be resolved fairly quickly. Both sides prefer a negotiated settlement and one probably can be worked out by the end of this year.



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OSA-Class Guided Missile Patrol Boat



Characteristics

Complement	25
Length	128 feet
Beam	24.9 feet
Displacement	215 tons
Maximum speed	34 knots

Armament

Missiles	4 single SS-N-2 launchers or 4 SS-N-11 launchers
Guns	2 twin 30mm AA mounts

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